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Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 TRSE-00 XMB-04 OPIC-06 SP-02 CIEP-02

LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 PA-02

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FM AMCONSUL TORONTO
TO SECSTATE WASHDC 2608
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E.O. 11652 N/A
TAGS: ECON, EFIN, PINT, CA
SUBJ: ONTARIO GOVERNMENT PRESENTS EXPANSIONARY PROVINCIAL BUDGET

1. ONTARIO TREASURER DARCY MCKEOUGH ANNOUNCED NEW BUDGET FEATURING IMMEDIATE SALES TAX REDUCTION APRIL 7. TEN BILLION DOLLAR BUDGET WILL SHOW RECORD 1.6 BILLION DOLLAR DEFICIT. MOST OBSERVERS PREDICT PROVINCIAL ELECTIONS BEFORE YEAR'S END. BUDGET WHILE DESCRIBED BY PRESS AS ELECTION-YEAR BUDGET HAS RECEIVED GENERALLY COMPLIMENTARY TREATMENT IN ALL THREE TORONTO DAILIES.

2. PROVINCIAL GOVERNMENT ANNOUNCED SIZEABLE TAX CUTS INCLUDING IMMEDIATE TWO PER CENT REDUCTION IN PROVINCIAL SALES TAX. NEW TAX RATE OF FIVE PER CENT IN EFFECT UNTIL DECEMBER 31 WHEN IT AUTOMATICALLY GOES BACK TO SEVEN PER CENT. THROUGH THIS MEASURE GOVERNMENT COUNTING ON INCREASED SALES IN CONSUMER ITEMS TO HELP ECONOMIC RECOVERY.

3. OTHER ITEMS IN BUDGET WILL PROVIDE FREE DRUGS FOR OLD-AGE PENSIONERS, CUT PROVINCIAL INCOME TAXES FOR PENSIONERS AND LOW-INCOME INDIVIDUALS AND FAMILIES, INCREASE PAYMENTS
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UNDER PROVINCE'S GUARANTEED INCOME SCHEME, AND PROVIDE FIRST-TIME HOME BUYERS WITH 1,500 DOLLAR GRANTS. BUDGET

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ALSO PROVIDES INDUSTRIAL INCENTIVES (E.G. ELIMINATION OF
BOTH RETAIL SALES TAX ON PRODUCTION-RELATED MACHINERY AND
GASOLINE AND DIESEL FUEL TAXES ON INDUSTRIAL, COMMERCIAL
AND INSTITUTIONAL USES) AND INCREASES BENEFIT PROGRAMS FOR
FARMERS AND SMALL BUSINESSES. IT HARMONIZES MOST PROVINCIAL
TAX LEGISLATION WITH RECENT FEDERAL LEGISLATION AND AIMS AT
GOVERNMENT SPENDING RESTRAINT AND A 2.5 PER CENT CUT IN
PROVINCIAL CIVIL SERVICE.

4. MCKEOUGH SAID BUDGET DESIGNED TO HELP RECOVERY AND COMBAT
INFLATION BUT REAL PURPOSE "GLOBE AND MAIL" EDITORIAL SAYS IS
"LAYING GROUND WORK FOR ELECTION". IN EDITORIAL, TORONTO
STAR SAID "IF ... BUDGET GOODIES ARE A PRELUDE TO ...
ELECTION, AS THEY APPEAR, AT LEAST THEY MAKE GOOD ECONOMIC
SENSE." STAR CONCLUDED WITH "MCKEOUGH HAS PRODUCED A REALISTIC
BUDGET THAT TAKES A LITTLE OF THE PAIN OF INFLATION AWAY AND
SHOULD HELP REGENERATE SLUGGISH AREAS OF THE ECONOMY."

5. PROVINCIAL ELECTIONS WIDELY PREDICTED AND EXPECTED IN
THE FALL OR EVEN EARLIER. RECENT POLLS HAVE SHOWN PROGRESSIVE
CONSERVATIVE GOVERNMENT OF PREMIER DAVIS LAGGING BEHIND THE
LIBERALS AND BUDGET FORSAKES INFLATION FIGHT TO PROVIDE ELECTION
FODDER FOR TORIES.

6. IN BUDGET CONCLUSION MCKEOUGH STATES "GIVEN THE ANTICIPATED
UPTURN IN THE US ECONOMY AND APPROPRIATE POLICIES BY OTTAWA,
I BELIEVE THAT THE ONTARIO ECONOMY WILL REBOUND TO HIGHER
LEVELS OF GROWTH BY YEAR-END." SUPPORTING ECONOMIC REVIEW
SUBMITTED BY MCKEOUGH WITH BUDGET AMPLIFIES THESE THEMES IN
ITS CONCLUSION: "THIS PAPER HAS REVIEWED ONTARIO'S
ECONOMIC PERFORMANCE IN 1974 AND EXAMINED THE STRENGTHS ,
PARTICULARLY THE MAJOR RECESSION IN THE U.S.,CANADA AND
ONTARIO CANNOT ASPIRE TO FULL-EMPLOYMENT GROWTH IN 1975.
EXPANSIONARY MEASURES IN THE U.S., HOWEVER, SHOULD GENERATE
RENEWED MOMENTUM BY YEAR-END. THIS UPSWING ALONG WITH THE
STIMULATIVE ACTIONS IN ONTARIO'S 1975 BUDGET PROVIDE THE
BASIS FOR A MODERATE AND BALANCED RECOVERY. A RISE IN OIL AND
NATURAL GAS PRICES WOULD JEOPARDIZE THIS RETURN TO NORMAL
ECONOMIC PERFORMANCE BY LATE 1975. "MCKEOUGH TOLD PRESS
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THAT ENERGY PRICE RISE COULD LEAD TO MINI-BUDGET THIS SUMMER.

7. PREMIER DAVIS IN OTTAWA THIS WEEK TO FIGHT FOR STATIC
PRICES AT FEDERAL-PROVINCIAL ENERGY CONFERENCE OR, WE
UNDERSTAND, VERY MODERATE AND PHASED INCREASES AS A
FALL-BACK. SUBSTANTIAL OIL/GAS PRICE INCREASE COULD TRIGGER
PROVINCIAL ELECTIONS THIS SUMMER.
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